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Advertising: the latest trends in TV commercials

How to cope with falling money fund yields

August 3, 1992 Four Dollars

Forbes

Crime on the line

If you haven't been a victim of toll fraud, you probably will be

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Forbes
AUGUST 3, 1992 VOLUME 150 NUMBER 3

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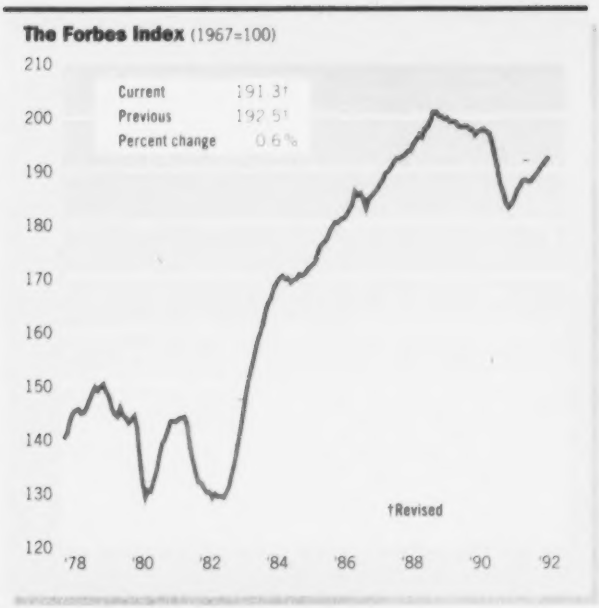
Cover illustration by Michael Garland

THE FORBES INDEX

BY TIMOTHY DODMAN



June's dismal unemployment figures prompted the Federal Reserve to lower interest rates yet again. A number of banks followed suit and reduced their prime rates to 6%. Short-term rates are now at their lowest levels in nearly 30 years. But as of May, consumers continued to reduce their nonmortgage debt load. Total installment credit outstanding fell at a 4% annual rate in May, to the lowest level since December 1989. This augurs well for the long term, but indicates that consumers still lack the confidence to spend heavily in the months leading up to the election.

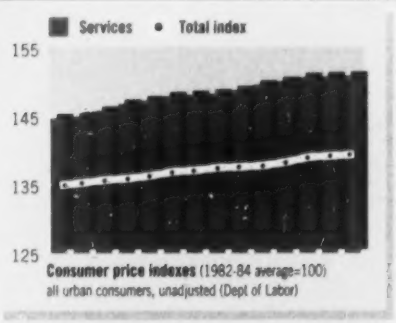
Other key rates	Source	Status
Prime rate	Chase Manhattan Bank	6.0%
Auto sales year to date vs 1991[1]	Ward's Automotive	2.3%
Index of leading indicators May vs Apr	Dept of Commerce	0.4%
Trade balance 12 months ending April	Dept of Commerce	-$66 bil
All-commodity producer price index June vs May[2]	Dept of Labor	0.6%
GDP 1st quarter vs 4th—annualized growth	Dept of Commerce	2.7%
M2 (3-month change)—annualized growth[3]	Federal Reserve	0.1%

[1] U.S.-based manufacturers, excludes imports, as of 6/30/92. [2] Wholesale goods. [3] Includes M1 (public currency and checking deposits) plus savings accounts and money market funds.

Index components

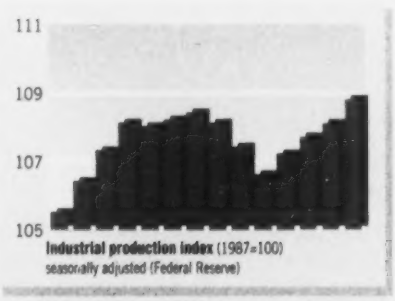
The Forbes Index is a measure of U.S. economic activity composed of 8 equally weighted elements: Total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, new housing starts, total retail sales, the level of new orders for durable goods compared with manufacturers' inventories, personal income, total consumer installment credit.

To measure these 8 elements, FORBES monitors 10 series of U.S. government data. The last 14 months data for each series are presented below.

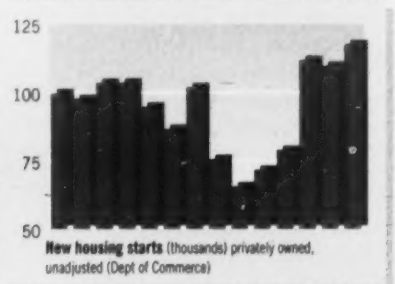


Consumer price indexes (1982-84 average=100) all urban consumers, unadjusted (Dept of Labor)

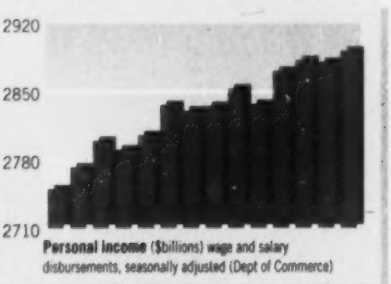
Manufacturers' new orders and inventories ($billions), seasonally adjusted (Dept of Commerce)



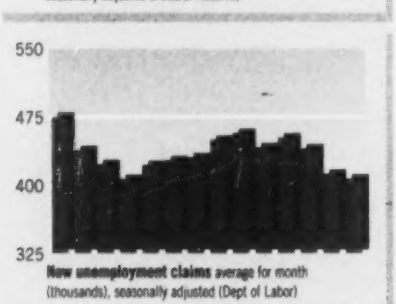
Industrial production index (1987=100) seasonally adjusted (Federal Reserve)



New housing starts (thousands) privately owned, unadjusted (Dept of Commerce)



Personal income ($billions) wage and salary disbursements, seasonally adjusted (Dept of Commerce)



New unemployment claims average for month (thousands), seasonally adjusted (Dept of Labor)

Retail sales ($billions), seasonally adjusted (Dept of Commerce)

Consumer installment credit ($billions) total, seasonally adjusted (Federal Reserve)

A M J J A S O N D J F M A M A M J J A S O N D J F M A M A M J J A S O N D J F M A M

Here comes another big transatlantic new equity issue. But will it fly?

Wellcome worries

By Peter Fuhrman

BY EARLY AUGUST the controlling shareholder of British pharmaceutical giant Wellcome Plc. hopes to sell to the public 37% of the company for a consideration of $5 billion. A quarter of the issue's 330 million shares will be marketed in the U.S.

Will the capital markets digest this huge deal? The signs are not good. The U.S. new issues market has peaked *(see p. 102)*. And there are specific worries regarding Wellcome.

Solvency is *not* a concern. Started in 1880 by two American pharmacists, London-based Wellcome is a $3 billion (sales) company that earned nearly $800 million, pretax, last year.

Belying its size, Wellcome's product base is rather narrow. At least 45% of Wellcome's current sales (and a larger slice of likely future profits) comes from producing the world's two leading antiviral drugs, the herpes and shingles treatment Zovirax, and the AIDS drug AZT. And Wellcome's hold on both drugs is uncertain.

Start with AZT, technically the drug zidovudine. Since 1987 Wellcome has been the exclusive patented supplier of this drug. Worldwide, AZT sales should rise by 30% this year, to around $400 million. Brokers flogging the Wellcome shares say sales could double within three years.

Wellcome faces two serious legal challenges on AZT, however. In Canada, a preliminary ruling in May gave approval to Apotex, an affiliate of U.S. generic pharmaceutical firm Barr Laboratories, to begin selling its generic version of zidovudine. Apotex's price in Canada, $1.10 a capsule, is 33% lower than Wellcome's. This fight will be tied up in Canadian courts for another two years at least. But during this time Apotex can sell its version of zidovudine. Its cost of production: 50 cents a capsule. Also worrisome to Wellcome, Apotex is selling its AZT product to a Bahamian company that sells it in the U.S. by mail order, despite warnings from the U.S. Federal Drug Administration that such sales may be illegal.

Barr Laboratories has also asked U.S. courts to declare Wellcome's AZT patents invalid. Barr's case hinges on the role of the U.S. government's National Institutes of Health in discovering zidovudine. The NIH argues that its scientists at the National Cancer Institute invented the drug, but that Wellcome, which first put zidovudine to use fighting AIDS, hid this fact from U.S. patent authorities.

Last year the NIH assigned its rights as inventor of zidovudine to Barr Laboratories. Wellcome is suing to block Barr from selling its generic; the trial is scheduled to begin next May.

Wellcome's other mainstay product is Zovirax, the herpes and shingles treatment that is the fourteenth-best-selling drug in the world. Unfortunately for Wellcome, its patents on the product begin running out in four years; the patent in the U.S., the largest market for Zovirax, expires in 1997. The company is working on new patentable versions of the drug. But sales will shift over time to lower-profit over-the-counter versions.

None of the money looked for in the public offering will go to the company. Until 1986 all Wellcome shares were held by the charitable Wellcome Trust. At that time the trust floated 25% of the shares on the London market. Now the trust is hoping to sell half its remaining 75% holding. Thirty weighty investment banks from Europe, the U.S. and Japan are helping the trust market the issue—but none is willing to underwrite the deal.

The issuing price is expected to be around $16 a share. That's a far cry from the $22 a share Wellcome traded at four months ago. But even so, the price is a hefty 27 times prospective 1992 earnings. This would value Wellcome on a par with the drug sector's leading firm, Merck & Co.—which has a much better diversified product base—and well above most U.S. drug firms *(see table)*.

Will the Wellcome financing go the way of aircraft lessor GPA Group (FORBES, *June 22*), that other big transatlantic equity offering that was canceled in June for lack of demand? If so, it will send another shiver through the executive offices of companies with big equity issues in the pipeline. ■

Is the price too high?

Company	Recent price	Latest 12-mo P/E	Sales ($mil)	Earnings ($mil)	Market value ($mil)	5-year average ROE
Wellcome	16⅞	27.0*	$2,932	$467	$14,500	20.3%
Abbott Labs	29½	22.3	6,877	1,089	25,091	32.8
American Home Products	75¾	16.7	7,079	1,375	23,908	43.0
Bristol-Myers Squibb	66⅞	16.4	11,159	2,056	34,742	30.7
Glaxo Holdings	26⅛	24.9	5,441	1,362	39,177	27.4
Eli Lilly	65⅜	14.0	5,726	1,314	19,130	27.0
Merck & Co	50¾	26.7	8,603	2,122	58,846	43.8
Pfizer	77⅛	34.9	6,950	722	25,424	16.9
SmithKline Beecham	42⅞	18.6	8,761	931	22,831	14.5

*P/E is based on consensus estimate for fiscal 1992 earnings for the year ending Aug. 31.

Sources: Value Line via Lotus One Source; Forbes.

Big U.S. corporations invested capital in Beijing and lost a lot of it. Robert Theleen invested on the coattails of Hong Kong industrialists pouring into Guangdong and did well.

Greater China, greater profits

By Andrew Tanzer

ChinaVest Ltd. Chairman Robert Theleen
"Disposable income is growing faster than in any country this century."

While growth in most of the world's big economies remains anemic, coastal China booms. The economy of the Pearl River Delta in southern Guangdong province is expanding by 20% a year; personal incomes in that region of 20 million people have swelled an astonishing tenfold since the late 1970s.

While this fact is finally penetrating boardrooms in the U.S., it's old news to Robert Theleen, 46, chairman and cofounder of Hong Kong-based ChinaVest Ltd. Through three funds ChinaVest manages $100 million of U.S. and European institutional money (investors include Ameritech, Continental Bank, Siemens and John Hancock), plus money for wealthy families. Theleen boasts of compound annual returns of 30%, 28% and 26% on his three investment pools, all launched since 1985.

Theleen's theme is investing with entrepreneurs in "Greater China"—by which he means the region of 120 million Chinese encompassing Taiwan, Hong Kong and China's two southern provinces of Guangdong and Fujian, all of which are rapidly becoming one integrated economy. "You can't find a better model for growth than the overseas Chinese entrepreneurial mind," asserts Theleen, a professorial former banker. To put it another way: Invest in people, not in fixed assets.

Chicago-born Theleen first came to Asia while serving in military intelligence during the Vietnam War. He later worked as a banker in Singapore and Hong Kong and then became a self-employed consultant.

Theleen didn't make much money as a consultant, but he did learn a valuable lesson: The large American firms that rushed into China in the early 1980s made a big mistake when they focused on Beijing, the seat of bureaucracy. By contrast, the investors who made money in China were the Hong Kong Chinese businessmen who were being pinched by rising costs in Hong Kong and who looked for cheaper labor just across the border, in Guangdong. "For them, it was either China or bankruptcy," says Theleen.

In 1985 Theleen opened his first ChinaVest fund with the help of three American partners—two bankers and

Hong Kong as entrée to Greater China

Company/business	Share price	EPS 1991 (in U.S. cents)	EPS 1992E (in U.S. cents)	P/E 1992E	Dividend yield	Price/ book
Citic Pacific/property development, finl svcs	172	9.23	13.08	13.1	1.9%	2.1
Grande Holdings*/computer components	7	0.81	NA	NA	3.9	1.6
Guangdong Investment/property development	49	0.60	2.56	19.0	1.1	3.0
Harbour Ring International Holdings*/toys	16	3.04	3.06	5.1	6.5	3.1
Hopewell Holdings/construction, prop development	71	5.77	5.26	13.5	4.7	1.7
IDT International*/consumer electronics	14	2.27	1.97	7.2	4.1	1.5
Luks Industrial*/TV sets	37	2.90	2.69	13.6	2.8	2.3
CP Pokphand/agribusiness, motorcycles	36	2.53	2.69	13.3	3.2	4.2
Swilynn International*/videocassettes	15	2.05	2.31	6.5	7.7	1.9

Share prices as of July 3. *Held by ChinaVest. E: Estimate. NA: Not available.
Sources: Baring Securities; Sun Hung Kai Securities; Peregrine Brokerage; Forbes.

Money manager Theleen says these Hong Kong companies are benefiting from the capitalist ferment in China, Hong Kong and Taiwan. He owns positions in the asterisked companies.

a lawyer—and his wife, a French-educated Chinese with expertise in China trade. That fund put out $12 million over five years, mainly in Hong Kong companies moving production of goods such as TV sets, videocassettes and electronic components to China. The pool's value today is estimated at $20 million.

An early winner was a freight forwarder servicing the factories sprouting in southern China. ChinaVest sold its stake after 2½ years for a 250% gain to East Asiatic, a Danish trading company.

In late 1987 ChinaVest launched its second fund, TaiwanVest. The export-oriented Taiwanese were getting rich and the government was lowering import barriers under U.S. pressure. Theleen figured the Taiwanese would start spending. So the fund invested in converting a former Reebok shoe manufacturer into a Reebok retailer. TaiwanVest took a position in a theme park developer and distributor of theme park equipment from North America. It introduced home-delivered pizza to Taiwan by backing the franchisee for Domino's Pizza. Another investment got the fund into distributing Philip Morris cigarettes, Heineken beer, Johnnie Walker scotch and Campbell soup.

With his third fund, ChinaVest II, launched in mid-1989, Theleen continued his Greater China theme by financing Taiwanese entrepreneurs investing on the mainland. This fund also includes investments in Chinese entrepreneurs in the U.S. For example, ChinaVest II bought into Torrance, Calif.-based Electronic Ballast Technology, a producer of energy-saving transformers for fluorescent lighting. Electronic Ballast is run by Chinese-American engineers with production in Taiwan; its sales have leaped from $5 million in 1988 to a projected $56 million for 1992.

Theleen usually invests as a middle-stage venture capitalist, typically selecting already profitable companies with sales of $10 million to $50 million as targets. The investment often takes the form of debt carrying a below-prime coupon and convertible into 10% to 40% of a company's common shares. If the company prospers, ChinaVest winds up owning inexpensive common stock—the conversion price of the equity may come to 6 or 10 times earnings at the time of conversion. When time comes to unload some of these equities, the ChinaVest funds ought to find a ready market. Closed-end China funds for retail consumption are coming to market (e.g., PaineWebber's Greater China Fund) and will be looking for something to put their money into.

Now that incomes are beginning to surge in southern China, Theleen is steering ChinaVest II to that region's consumer goods sector (manufacturing and retailing). ChinaVest is planning to open garment and footwear stores in China; by the end of the year it will open its first Domino's Pizza outlet in Guangdong. With the fourth ChinaVest fund, which he is launching this year, Theleen also wants to work with an international hotelier to build a chain of hotels in the burgeoning cities and towns of the Pearl River Delta.

"Henry Ford's ghost has descended into Guangdong," says Theleen. "Disposable income in southern China is growing faster than in any country this century."

ChinaVest uses Hong Kong and Taiwan as test markets, or incubators, for products and services to be launched in China. For example, a Hong Kong watchmaker that is now in ChinaVest's first portfolio acquired a prestigious-sounding Swiss brand name, Enicar. Theleen says the company is selling 40,000 watches a month in China at up to $100 each—more than the average monthly wage in Guangdong. ChinaVest bought a 15% stake in the watchmaker for $1 million in 1988, when sales were $3 million; last year the watchmaker earned $6 million, aftertax, on sales of $24 million.

But ChinaVest has had its share of duds, too. For example, ChinaVest's first fund wrote off a $1.4 million investment in *Far East Business*, a magazine edited and published by former *Business Week* editor Lewis Young. TaiwanVest wrote off a $1 million investment in a manufacturer of catalytic converters founded by a former executive of GM Taiwan. Theleen thinks it's not coincidental that all three of his flops were founded by businessmen over 60.

After making his share of mistakes, ChinaVest's Theleen now has a crystal-clear conception of the kind of Chinese entrepreneur he wants to back. "He has a very simple objective," says Theleen of his idealized partner. "He's not interested in cleaning up the environment, or in saving the people in Guangdong, or in affirmative action. He's interested in making money."

THE FORBES/BARRA WALL STREET REVIEW

BY ERIC S. HARDY

Utility stocks fared badly in the first quarter but bounced back nicely in the second quarter and into July as investors have scrambled to cope with falling money market yields. Douglas Preiser, a utility analyst for Kidder, Peabody, likes companies whose dividend payout ratios are below the industry average of 80%.

But Preiser looks beyond the raw numbers. What if a utility is losing commercial accounts as business customers shift to on-site generation? Or operates in a state where utility regulators are on a rate-cutting rampage?

Preiser has decided he likes Entergy (formerly Middle South Utilities), which is planning to merge with Gulf States. Entergy yields 4.7% now, but Preiser expects a 14% dividend increase during the third quarter; that would boost the yield to 5.4%. Another of his choices is Western Resources (yield, 6.6%), formed earlier this year by the merger of two Kansas utilities.

Special focus

Still relatively depressed thanks to the sluggish economy, these grocery stocks appear to be good values. They're all selling for less than 15 times the earnings that analysts expect them to report this year, per the Institutional Brokers Estimate System. The cheapest, Safeway, sells for an estimated ten times estimated 1992 earnings.

Bargains at the checkout counter

Company	1992 Est P/E
Safeway	10
Kroger	11
American Stores	11
Ruddick	12
Vons Cos	12
Casey's Genl Stores	12
Great A&P Tea	13
Weis Markets	13
Giant Food	13
Hannaford Brothers	15

Sources: Value Line, IBES

The overall market

Closeup on the market

Index or investment	2-week change	% change from 1 year	% change from 5-year high
Barra All-US index	2.7%	9.6%	-4.1%
S&P/Barra Growth index	3.9	12.6	-5.0
S&P/Barra Value index	1.9	13.4	-0.8
Dow Jones industrials	1.2	12.3	-2.6
S&P 500	2.8	9.9	-1.6
NYSE	2.7	10.2	-1.9
Nasdaq	3.0	15.6	-12.4
Amex	2.1	5.5	-8.9
EAFE	-1.4	-1.1	-25.6
CRB index	-0.6	-1.2	-24.4
Gold	3.5	-5.2	-30.6
Yen	-3.0	-9.4	-23.4
Oil	-2.5	0.5	-48.0

The best and worst performing stocks[5]

Best	Price	2-week change	1992 EPS[7]	Worst	Price	2-week change	1992 EPS[7]
DFSoutheastern	29 ¾	68%	$2.00	Easel	7½	-64%	$0.90
REN Corp-USA	11 ½	48	0.45	Quarterdeck Office Sys	4½	-59	0.71
Advanta	19 ¼	35	1.62	Technology Solutions	7¼	-53	1.21
Kentucky Cent Life Ins	9⅝	32	0.58	Network General	8⅛	-51	0.93
Durr-Fillauer Medical	27 ½	31	1.55	Carlisle Plastics	3⅛	-43	0.97

The best and worst performing industry factors[6,8]

Best	2-week change	Since 12/31/91	Worst	2-week change	Since 12/31/91
Tobacco	11.7%	5.2%	Coal & uranium	-9.8%	-28.6%
Photographic, optical	9.0	-14.5	Motor vehicles	-5.4	33.8
Cosmetics	7.1	-3.9	Chemicals	-4.3	5.0
Beverages	7.0	11.9	Forest products	-4.2	34.6
Misc finance	6.9	-3.0	Trucking	-3.5	-0.1

Note: Data for period ending 7/9/92. The Barra All-US index consists of all publicly traded common stocks for which price quotations are available and ordinary shares of foreign stocks trading on U.S. markets. ADRs, REITs and closed-end funds are excluded. [1] Total return of a portfolio of more than 150 large-capitalization stocks that has high historical earnings growth and has predicted above average earnings growth. [2] Total return of more than 300 large-capitalization stocks characterized by low price-to-book ratios, high yields and low price-to-earnings ratios. [3] A dollar-denominated capitalization-weighted index of more than 1,000 stocks from Europe, Australia, New Zealand and the Far East. Source: Morgan Stanley Capital International Perspective. [4] Index of 21 commodity futures. [5] Knight-Ridder Financial Information. [6] During the last two weeks. [7] Estimate. Source: Institutional Brokers Estimate System, from IBES, Inc. [8] Shows return to the industry factor after controlling for other influences including company size, value and growth characteristics. Multi-industry firms have proportional contributions in two or more groups. NA: Not available. Principal source: Barra, Inc., Berkeley, Calif.

NEW ISSUES REVIEW

BY WARREN MIDGETT

The biggest new issues[1]

Company/business	Exchange	Offer date	Offer price	Recent price	Offering ($mil)	Lead underwriter	Performance to date absolute	Performance to date rel to mkt[2]
First Data/credit card processing svcs	n	4/9/92	22	24⅛	$968	Lehman Brothers	13%	111
Ultramar/petroleum prods	n	6/26/92	15	15⅛	495	Goldman, Sachs	1	100
Boston Scientific/medical prods	n	5/18/92	17	17⅛	400	Goldman, Sachs	1	102
General Instrument/cable tv equip	n	6/10/92	15	14⅛	330	Goldman, Sachs	-4	96
Reliance Electric/electric motors	n	5/5/92	19	17¼	301	Goldman, Sachs	-9	93
Arkansas Best/trucking	o	5/13/92	14	11⅝	219	First Boston	-17	85
Riverwood Intl/paper prods	n	6/17/92	14	14⅛	157	JP Morgan	0	99
Intl Family Entertainment/cable tv	n	4/28/92	15	12¾	150	DLJ	-14	86
John Nuveen/investment banking	n	5/19/92	18	16⅛	144	Goldman, Sachs	-7	95
Kohl's/department stores	n	5/18/92	14	18½	136	Morgan Stanley	30	132

Performance update

The market for new issues has cooled considerably from the first quarter of 1992. Securities Data Co. reports that in the first three months of the year 142 offerings came to market, raising $7.8 billion. In the second quarter the totals dropped to 119 companies and $5.6 billion in new capital.

Another sign of a troubled new issues market: the growing number of proposed offerings that are scaled back, postponed or canceled. Dr Pepper/Seven-Up had planned to go public for $23 per share in a $550 million deal underwritten by First Boston. By the last week in June the company realized it was unlikely to get its asking price, and so withdrew the offering. Likewise, Gulfstream Aerospace canceled an issue led by Morgan Stanley, and GPA Group, the huge aircraft lessor that badly needs new equity (FORBES, *June 22*), withdrew its Goldman, Sachs-led offer.

Securities Data can name 82 companies that went public for the first time in May and June at prices below those originally filed with the Securities & Exchange Commission. Joe Miller, an analyst at Securities Data, says another 61 issues were postponed and 13 canceled in the first half of the year. Miller sees this as a strong indication that the market for initial public offerings is out of steam.

The best new issues[1]

Company/business	Offer price	Offering ($mil)	Lead underwriter	Performance to date absolute	Performance to date rel to mkt[2]
Reno Air/airline	3	$5	Paradise Valley Secs	108%	213
Natl Vision Assoc/vision centers	13	33	Robinson-Humphrey	52	155
Bell Sports/helmets	15	45	William Blair	37	134
Credit Acceptance/financial svcs	13	26	William Blair	37	138
Starbucks/coffee shops	17	36	Alex Brown & Sons	31	129

The worst new issues[1]

Company/business	Offer price	Offering ($mil)	Lead underwriter	Performance to date absolute	Performance to date rel to mkt[2]
AGCO/farm equip	14	$5	First Boston	-54%	47
Affinity Biotech/pharmaceutical prods	6	33	Penn Merchant Grp	-48	53
Adesa/auto auctions	11½	45	Robinson-Humphrey	-46	55
On the Border Cafes/restaurants	8	26	The Principal/Eppler	-43	58
Intramed Labs/surgical equip	5½	36	HJ Meyers	-32	69

The most active investment bankers

Underwriter	Total offerings	Total raised ($mil)
Goldman, Sachs	30	$4,369
Morgan Stanley	26	2,768
Lehman Brothers	29	2,125
Merrill Lynch	20	2,280
First Boston	25	2,006

Industries going public

Industry	Total offerings	Total raised ($mil)
Manufacturing	183	$9,272
Services	72	2,814
Health care	38	2,233
Retail	40	1,866
Insurance	13	1,696

Note: This report covers initial public offerings of common equities with offer date of 4/1/92 to 6/30/92, offering price of $2.50 or more and offering value of $5 million or more. Closed-end funds, limited partnerships, and ADRs (American Depositary Receipts) of corporations already traded in foreign countries are excluded, as are REITs and spinoffs. [1]Last quarter. [2]The ending value of $100 invested in the stock, divided by the ending value of $1 invested in the market. [3]Latest 12 months. Source: Securities Data Co.

Investors looking to replace the returns they have lost in their money market accounts should consider the Baby Bells.

Baby boom?

BY R.S. SALOMON JR.

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UNTIL RECENTLY investors enjoyed an unusual luxury: They could park their savings in U.S. government money market funds and earn high real returns with virtually no risk attached. But with short-term rates approaching 3%, the party is officially over. People seeking to mitigate the drop in their investment income are now confronted with a dilemma: They can stay with a money market fund and accept its inadequate yield or they can consider a wide range of investment alternatives that are riskier than Treasury bills.

Over the past two years the rate available on money market funds has dropped from 8% to 3%. At the current level, money market investors are hardly staying even with inflation. This is a dramatic change from the experience of the past ten years, when Treasury bills returned 7.6% and inflation was 4%, giving holders a real, inflation-adjusted return of 3.6%. Note that I haven't even factored in taxes.

Not only do investors now have to find alternatives to money market funds, but they also have to rethink their investment objectives. Once upon a time, individuals divided their income into two parts: one for savings (to be invested in long-term instruments, usually stocks or bonds) and the other for cash (to be invested in short-term, easily redeemable instruments so as to meet the rent or the electric bill). But when short-term rates stayed high for a long period, people stopped allocating their money between these two categories. Able to earn high rates and retain the flexibility of short-term instruments, they stopped worrying about how much money ought to go into stocks and bonds and put it all in money markets.

Now that short rates have dropped again, the old allocation decision will come back into style.

Investors looking to replace the returns they have lost in their money market accounts should consider the seven Bell regional holding companies, also called the Baby Bells. A portfolio of these stocks is not the place for short-term funds, however. Buyers should be prepared to hold on to these issues for the next three to five years.

The Bell regionals provide local phone service across the country. The accompanying table presents earnings, dividend and valuation data for the group. Telecommunications technology is changing rapidly, and phone companies now have to deal with competition in an increasing number of areas. Despite these changes, the regionals remain high-quality companies. The group has underperformed the overall market for the past two years. The average dividend yield is now 5.3%; historically the companies have increased their dividends at an average rate of about 4% each year.

The combination of the current yield and some dividend growth suggests that, with no change in these companies' business prospects, the stocks could generate a total annual return (current yield, plus capital appreciation reflecting dividend growth) of roughly 9%—quite close to the levels once generated by money market funds.

And the returns could be higher. The no-change-in-business-prospects assumption is probably a worst-case scenario. Responding to competitive pressures, the holding companies have moved to cut costs and make their businesses run more efficiently. This suggests that earnings growth could improve over the next few years, boosting both stock prices and, potentially, the rate of dividend increase.

The Baby Bells are not identical. Each operates in a different geographic region, with varying economic characteristics and growth prospects. Moreover, regulators are not the same across the country. Investors can balance these variables by buying a basket of the companies, putting roughly the same amount of money in each stock and effectively diversifying the regional risks.

Bell regional holding companies

Company	Price	Dividend	Yield	1992* EPS	Payout	P/E*
Ameritech	66	$3.52	5.3%	$4.85	72.6%	13.6
Bell Atlantic	47	2.60	5.5	3.10	83.8	15.2
BellSouth	53	2.76	5.2	3.45	80.0	15.4
Nynex	81	4.64	5.7	6.40	72.5	12.7
Pacific Telesis	41	2.18	5.3	3.00	72.6	13.7
Southwestern Bell	63	2.92	4.6	4.20	69.5	15.0
U S West	38	2.12	5.6	3.05	69.5	12.5
Average			**5.3%**		**74.4%**	**14.0**

*Estimated.

The Baby Bells operate in different economic and regulatory environments. So the best investment approach might be a little of a number of these stocks.